



FOR IMMEDIATE RELEASE
March 31, 2009

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"Stability through Scandal: a Review of the Office of the Chief Financial Officer"

WASHINGTON, DC - Senator Daniel K. Akaka (D-HI), Chairman of the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Committee on Homeland Security and Governmental Affairs, held a hearing this morning to examine the District of Columbia's Office of the Chief Financial Officer (OCFO), and the District's financial management practices.

Chairman Akaka's opening statement appears below.

Good morning. Thank you for joining us today as the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia meets to examine the Office of the Chief Financial Officer for the District of Columbia. This morning, we will evaluate the current state of D.C.'s financial management, the progress it has made since its financial crisis in the 1990s, and how D.C. is addressing future financial challenges.

Over the past 14 years, D.C.'s finances have undergone major change. In the 1990s, long-standing budget deficits and a general lack of accountability resulted in the District's inability to provide adequate public services to its residents. Ultimately, Congress stepped in and passed the District of Columbia Financial Responsibility and Management Assistance Act of 1995. The Act established a Control Board to oversee D.C. finances, expanded the powers of the D.C. Inspector General (IG), and created the Office of the Chief Financial Officer.

The Senate held a series of oversight hearings shortly after the Control Board and OCFO were established, to examine the problems leading up to D.C.'s financial collapse, and reforms happening in other cities facing similar financial and social hardships. Recommendations from these hearings served as starting-points for D.C.'s fiscal recovery.

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Thanks largely to reform efforts by the D.C. Mayor's Office and the OCFO, the Control Board was disbanded and the District resumed management of its own finances in 2001. In the years since the financial crisis, D.C. has achieved twelve consecutive balanced budgets. While many states and cities struggled with budget shortfalls, D.C. posted a budget surplus for Fiscal Year 2008.

Despite these accomplishments, the District faces many financial hurdles. The OCFO predicts decreases in revenue in the coming fiscal years. The OCFO's most recent revenue estimate shows a \$393.5 million decrease for Fiscal Year 2009, compared with its original revenue estimate from June of last year. The struggling economy and higher unemployment rates are contributing to D.C.'s weak revenue forecast.

Additionally, D.C. does not have the ability to increase revenues as other cities do. Much of the District's land is federally owned and therefore not subject to D.C. taxes. Additionally, because a high proportion of people who work in the District do not live here, the City's residents pay for the upkeep of roads, bridges, sidewalks, and other infrastructure used by many non-residents who are not subject to D.C. income taxes.

The District also continues to struggle with financial management weaknesses. Due to insufficient internal management controls designed to prevent, detect, and deter fraud, the District repeatedly has suffered the loss of millions of dollars in taxpayer money.

In 2007, two employees from the Office of Tax and Revenue (OTR), a division of the OCFO, were arrested for embezzlement of more than \$12 million. Investigations revealed a property tax refund scheme in which fraudulent refund requests were submitted by a Tax and Revenue official and paid without detection for decades, beginning in the 1980s. At the time, there were no internal controls within Tax and Revenue to prevent such fraud. It appears that diligence in protecting the taxpayers' money was not part of the office's culture.

The scheme was discovered when the OCFO implemented an internal control in 2007 to flag refund checks over a certain dollar amount. The Tax and Revenue official tried to issue a fraudulent refund check, a warning went up, and she eventually was caught. Had the new internal control not be implemented, it is possible the fraud scheme would still be going on today.

I am also concerned by what appears to be a chronic problem with Medicaid management in the District. The D.C. Inspector General's audits of the D.C. Department of Mental Health Programs found that there was no process for revising and resubmitting denied Medicaid claims. Audits also uncovered incomplete documentation for Medicaid claims, causing the District to be denied federal Medicaid reimbursement for services that had been provided. As a result, D.C. residents must bear this financial burden. I believe that is unacceptable and must be remedied by the OCFO.

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Before I conclude my statement today, I would like to address an incident that took place earlier this month in the Office of the Chief Technology Officer. An official was arrested for allegedly accepting bribes and engaging in a money laundering scheme by approving fraudulent time sheets for non-existent employees and charging the District for software products it never actually received. While I understand the official arrested was not under direct the purview of the OCFO, I believe this occurrence highlights general problems of accountability in contracting and procurement.

In 2007, the Government Accountability Office issued a report identifying a number of weaknesses in the District's procurement process, including the need for the OCFO to work more closely with the Mayor's Contracting and Procurement Office to bridge the gap between the program and finance components of contracting. It is my hope that the OCFO, while not directly responsible for the recent scandal in the Chief Technology Office, uses this unfortunate event as an opportunity to reevaluate the environment in which contracting occurs, creating internal controls and robust anti-fraud policies where needed.

I hope today's hearing allows us to gain a greater understanding of how the OCFO has addressed recent scandals and has worked to implement new policies to improve the overall health of the agency and District government. In this difficult financial climate, I believe it is important for Congress and District residents to know how the OCFO is safeguarding their hard-earned tax dollars.

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